

# How to Make a Budget and Stick to It

**A realistic budget is your best weapon against overspending.**

If you want to keep your spending under control, it's essential that you make a budget. A budget allows you to get a handle on the flow of your money -- how much is coming in and where it goes out. With that information in hand, you can make intelligent choices about how to spend.

## Keep Track of Your Daily Expenses

The first step in making a realistic budget is figuring out where your money goes. To keep track, you should make an expense record. You may be tempted to turn to a computer program, such as Intuit's Quicken, to keep track of your expenses. That may seem like an easy way to approach the task, but most of these programs have a significant shortcoming -- you don't record your cash outlays. Computer programs have you analyze your expenses paid primarily by check or credit card, and overlook the most obvious source of payment -- cash.

Rather than relying on a computer program, you can keep track of your expenses in an extremely low-tech but comprehensive way: with some paper and a pen. Here's how:

1. Take out eight sheets of paper. You will use one sheet per week, meaning you will record your expenses for two months. By doing this, you'll avoid creating a budget based on a week or a month of unusually high or low expenses.
2. Select a Sunday to begin recording your expenses.
3. Record that Sunday's date in the blank at the top of one sheet of paper.
4. Carry that sheet with you at all times.
5. Record every expense you pay for by cash or cash equivalent -- check, ATM or debit card or automatic bank withdrawal. Don't record credit card charges, as your goal is to get a picture of where your cash goes. When you make a payment on a credit card bill, however, list the items paid for.
6. At the end of the week, put away the sheet and take out another. Go back to Step 3.
7. At the end of the eight weeks, list seasonal, annual, semi-annual or quarterly expenses you incur but did not pay during your two-month recording period. The most common are property taxes, car registration, magazine subscriptions, tax preparation fees, insurance payments, and seasonal expenses such as summer camp fees or holiday gifts.

## **Total Up Your Income**

Your expenditures account for only half of the picture. You also need to add up your monthly income.

On a blank sheet of paper, list the jobs for which you receive a salary or wages. Then, list all self-employment for which you receive income, including farm income and sales commissions. Finally, list other sources of income, such as the following:

- bonus pay
- dividends and interest
- alimony or child support
- pension or retirement income
- public assistance

Next to each source of income, list the net (after deductions) amount you receive each pay period. If you don't receive the same amount each period, average the last 12.

Next to each net amount, enter the period covered by the payment -- such as weekly, twice monthly (24 times a year), every other week (26 times a year), monthly, quarterly or annually. Finally, multiply or divide the pay period into the net amount to determine the monthly amount. For example, if you are paid twice a month, multiply the net amount by two. If you are paid every other week, multiply the amount by 26 (for the annual amount) and divide by 12. (The shortcut is to multiply by 2.167.)

When you are done, total up all the amounts. This is your total average monthly income.

## Make Your Budget

After you've kept track of your expenses and income for a couple of months, you're ready to create a budget. Your twin goals in making a budget are to control your impulses to overspend and to help you start saving money. Follow these steps:

1. On a blank piece of paper, write down categories into which your expenses fall. (See the chart below for suggested categories.) Also, total up your two months' (or estimated seasonal, annual, semi-annual or quarterly) expenses for the categories you create.
2. Starting on a second piece of paper, list your categories of expenses down the left side of the page. Use as many sheets as you need to list all categories. These are your budget sheets.
3. On the sheets containing your list of categories, make 13 columns. Label the first one "projected" and the remaining 12 with the months of the year. Unless today is the first of the month, start with next month.
4. Using your total actual expenses for the two months you tracked and your estimated seasonal, annual, semi-annual or quarterly expenses, project your monthly expenses for the categories you've listed. To find your projected monthly expenses, divide your actual two months' expenses by two, divide your total seasonal or annual expenses by 12, divide your semi-annual expenses by six and divide your quarterly expenses by four. After you've divided up your seasonal or annual expenses, you might want to include only the major expenses -- such as quarterly loan payments or tax bills -- in your monthly budget projections. Just make a note of when smaller expenses, such as magazine subscriptions, are due so you can adjust your budget for that month. These temporary adjustments make more sense than trying to save \$1.23 each month so you can pay for your magazine subscription once a year.
5. Enter your projected monthly expenses into the "projected" column of your budget sheets.
6. Add up all projected monthly expenses and enter the total into a "Total Expenses" category at the bottom of the projected column.
7. Enter your projected monthly income below your total projected expenses.
8. Figure out the difference.

If your expenses exceed your income, you will have to cut expenses or increase your income. One way to do this is to make more money -- but let's assume that you are not likely to get a substantial raise, find a new (higher-paying) job, take on a second job or make significant money by selling assets. This means you must decrease your expenses without depriving yourself of items or services you truly need. Review your expenses with any eye toward reducing. Rather than looking to cut out categories completely, look for categories you can comfortably reduce slightly. For example, let's say you need to cut \$175 from your budget. You had also planned on spending \$75 a month to eat out dinner, but are willing to decrease that to \$25, thereby saving \$50. Keep looking for categories in which you can make similar, small adjustments.

## **Staying on Track**

Don't think of your budget as etched in stone. If you do, and you spend more on an item than you've budgeted, you'll only find yourself frustrated. Use your budget as a guide. If you constantly overspend in an area, you need to change the projected amount for that category -- without berating yourself. Keep in mind that a budget is designed to help you recognize what you can afford; it's not just an exercise in filling in the "correct" numbers. Check your figures periodically to keep an eye on how you're doing. If you never have enough money to make ends meet -- you're using credit cards and not paying the balance in full each month -- it's time to adjust some more.

If you continually come up short, you may need to consider some larger changes. For example, you might sell your newer car for an older used car to free yourself from car payments. As you make adjustments to your budget, give careful thought to your priorities. Everyone has different ideas about what luxury is, and different feelings about what they're willing to give up and what they just can't live without. Think about what you value, and be honest with yourself.

You may have to sacrifice some things that feel important to you, but don't expect to stick to your budget if you've taken away funds for almost everything beyond food, shelter and bills for your mundane necessities. Try making a list of things you feel you can't live without, and whittle your other expenses down to accommodate them. For example, you may decide to give up most of your magazine and newspaper subscriptions because you know you'd go nuts if you couldn't go to the movies once a week. If you make room for at least some of the things you love most, you're much more likely to succeed at your plan.

## Categories of Expenses

Using a blank piece of paper, make a list of categories into which your expenses fall. You'll need these categories to complete your budget. The following categories are suggestions to help you create your own list.

<b>Home</b> rent/mortgage property taxes insurance (renter's or homeowner's) homeowner's association dues maintenance & repairs telephone gas & electric water & sewer cable TV garbage household supplies housewares furniture & appliances cleaning yard or pool care	<b>Self Care</b> toiletries & cosmetics haircuts massage health club membership donations Healthcare insurance doctors dentist eyecare medications vitamins	<b>Wearing Apparel</b> clothing & accessories laundry, dry cleaning & mending	<b>Food</b> groceries breakfast out lunch out dinner out coffee/tea snacks
<b>Transportation</b> insurance registration gasoline maintenance & repairs road service club car wash parking & tolls public transit & cabs parking tickets	<b>Entertainment</b> music movies & video rentals concerts, theater & ballet museums sporting events hobbies & lessons club dues or membership film development books, magazines & newspapers software online services	<b>Dependent Care</b> care clothing allowance school expenses toys & entertainment	<b>Pet Care</b> vet grooming food, toys & supplies
<b>Education</b> tuition or loan payments books & supplies	<b>Travel</b> Gifts & Cards holidays birthdays & anniversaries weddings & showers	<b>Personal Business</b> supplies photocopying postage bank & credit card fees interest payments lawyer accountant	<b>Taxes</b> <b>Insurance</b> <b>Savings &amp; Investments</b>